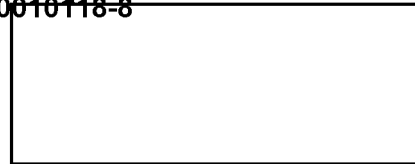




Director of  
Central  
Intelligence

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12 December 1978

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National Intelligence Daily (Cable)



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## ARGENTINA-CHILE: Channel Dispute

*//The meeting today of the Argentine and Chilean Foreign Ministers probably will not avert or delay an early Argentine military initiative in the Beagle Channel dispute.//* 

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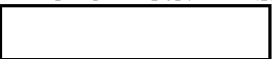
*//Argentine diplomats in Rome have been trying to persuade the Pope to act as mediator, but high-level Vatican officials indicate that at most he will plead publicly for a successful outcome of today's meeting, and offer his "good offices" privately to both governments.//* 

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*//If the Foreign Ministers fail to reach an accord, the most likely Argentine military initiative will be to occupy the Evout and Barnevelt island groups, which the Argentines believe to be uninhabited, and perhaps part of sparsely inhabited Hornos Island. This action would give the Argentines the land they seek to guarantee their claim to maritime control in the South Atlantic.//* 

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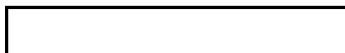
*//If the Argentine action were accomplished without directly engaging Chilean forces, the Chileans would probably limit themselves to a diplomatic response rather than undertake a further military escalation.//* 

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Most reporting suggests that the Argentines do not want to initiate a major conflict. They are ready to do so, however, and might attempt large-scale actions along the 3,200-kilometer border if the conflict widens. 

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## ITALY: Parliamentary Debate

*//The Italian parliament begins debate today on whether Rome should participate in the European Monetary System. At the EC summit last week, Prime Minister Andreotti decided to postpone a decision on entry in order to consult further with the parties supporting his Christian Democratic government. The parties are sharply divided on the question, and Andreotti--whose government is already threatened by interparty differences on other issues--is searching for a compromise to avoid further strains.//*

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*//Andreotti's reservations at the summit centered mainly on its failure to authorize as large an increase in the EC regional development fund as the Italians wanted. The Prime Minister's stand was supported by the Communist Party, which has argued strongly that Rome should stay out of the system unless the EC grants concessions adequate to cushion any deflationary consequences for the Italian economy.//*

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*//The decision was criticized, however, by some leading members of Andreotti's Christian Democratic Party and by the small but influential Republican Party, which says it will withdraw its support for the government unless Italy joins the monetary system, which is slated to go into effect on 1 January.//*

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*//Advocates of Italian participation believe it would help the government push through its controversial economic program, aimed mainly at curbing the public sector deficit and cutting labor costs; such measures would be all the more essential if Rome joined the monetary system. Conversely, the Communists, while generally supportive of the economic program, fear that Italian entry into the monetary system under present circumstances would limit their bargaining power in coming negotiations over the final form of the government's plan.//*

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*//Treasury Minister Pandolfi told Ambassador Gardner yesterday that Andreotti is leaning toward endorsement of Italian entry. To avoid a split with the Communists, however, Andreotti has apparently been searching this week for increased EC financial support for Italy. According to Pandolfi, the Prime Minister has received some assurance of further EC support from French President Giscard.*

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[Redacted]

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Italian officials were reportedly in Bonn yesterday discussing with Chancellor Schmidt's advisers the possibility of increased West German investment in southern Italy.// [Redacted]

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FEATURE ARTICLE

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## ALBANIA: An Interim Report

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Since the public acknowledgement of the termination of Chinese economic assistance in July, Albania has pursued a go-it-alone foreign policy that has eschewed accommodation with its principal ideological foes--China and the USSR. Neither has it shown evidence of moderating its hostility to the US. Albania has instead accelerated efforts begun last year to expand economic relations with selected Eastern and Western countries. So far, the Albanians are not inclined--or perhaps able--to find a "sponsor" that would provide the benefits previously extended by China.

A small country with few resources, Albania is, and long will be, heavily dependent on foreign trade and assistance to sustain its industrial development. During the nearly two decades of the Sino-Albanian alliance, Tirana relied almost completely on China for economic, technological, and military assistance; the impact of the pullout will therefore be severe.

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The regime of party boss Enver Hoxha has nonetheless apparently not sought to devise a strategy for finding a major new source of assistance. It seems instead to have decided to continue, for the near term at least, the policy it has followed for the last year of gradually accelerating economic relations with the outside world other than China. This approach will probably not enable the Albanians to obtain enough industrial materials and equipment in the near future to avoid disruptions in industrial production and an economic slowdown.

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As long as basic consumer needs are met, economic hardship is not likely to provoke domestic unrest. Hoxha maintains one of the most repressive regimes in the world and, although some Albanians may have doubts about the wisdom of his "go-it-alone" policy, there has been no evidence of any challenge to his authority.

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Hoxha publicly justified his current policy in a recent speech in which he differentiated between those states under "different social regimes" that are progressive and well-disposed toward Albania and those that are not. He expressed Albania's desire to maintain friendly relations with the former but stressed that it would not ignore or soft-pedal political and ideological differences with those regimes. [REDACTED]

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Despite Tirana's refusal to normalize relations with the USSR, Moscow and its Warsaw Pact allies continue their low-key efforts to court the Albanians. Bulgaria, which is in the forefront of this pursuit, recently published several articles that presented Albania in a positive light, and there are unconfirmed reports that Bulgaria, Czechoslovakia, and Poland have offered to complete several projects left unfinished by the Chinese and to provide credits for new ones. According to a Romanian official, Bucharest has also made soundings to expand economic ties. [REDACTED]

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Albania has been generally unreceptive to these overtures. Although one Albanian official has speculated that Tirana might develop relations with Bulgaria if the need should arise, the USSR--which is undoubtedly behind the efforts of its East European allies to woo Albania--can be under no illusion that Tirana will agree to a significant improvement in relations as long as Hoxha remains in power. [REDACTED]

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The Albanian leader has given no indication that he has moderated his longstanding deep-seated suspicions of the Soviets and the East Europeans. Moscow, however, may believe that any minor advance encourages progress toward bringing Albania back into the fold in a post-Hoxha era. [REDACTED]

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25X1 The Albanians are also trying to expand relations with Algeria. The two countries signed a two-year trade agreement in April, and Albania may have raised the subject of further trade when it dispatched a delegation led by the Minister of Foreign Trade to Algiers in September. [ ]

[ ]

25X1 While information is fragmentary, it appears that several West European countries, particularly Sweden and Finland, are ready to increase their commercial ties with the Albanian regime. A delegation led by the Albanian Minister of Foreign Trade left for Stockholm and Helsinki in early November; it will reportedly sign a five-year trade agreement with Sweden. [ ]

25X1 Probably none of these probes has yielded enough economic gain to maintain Albania's current level of industrial development. The Japanese have reported that the Albanians recently made some cautious inquiries about what procedures must be taken to obtain credits. This could suggest that Tirana--or at least some Albanian officials--may contemplate lifting the constitutional prohibition against borrowing from abroad. Even if the Albanians take this step, however, it is doubtful that they will be able to obtain enough credits in time to prevent a serious disruption in their industrialization efforts. [ ]

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